

Section 2 e-file Program

2.1 General Information

e-filing ensures more accurate returns because e-file software and our e-file process verify certain aspects of the return before we accept it for processing. Because of these checks, e-file returns have the lowest error rate of all returns filed. In addition, taxpayers and tax practitioners know that we received their return because we send an acknowledgment for each e-file return.

You may transmit electronic return Forms 540, 540NR Long, 540NR Short, 540 2EZ, 100, 100S, 565 and 568 via a transmitter or directly to us. Returns are transmitted to us either by modem using dial-up telephone lines or via the Internet. You should check with your software provider or transmitter regarding the transmission options they support.

Our e-file Program checks the return information for completeness and accuracy. If our e-file Program accepts the return, you receive an acknowledgement (ACK) showing we accepted the return. If our e-file Program rejects the return, you receive an ACK identifying the problem(s) that caused our e-file Program to reject the return. You must correct the errors and retransmit the return for processing.

2.2 Definition of e-file Participants

A participant in California's e-file Program is an "Authorized FTB e-file Provider." The Authorized FTB e-file Provider categories are:

An **Electronic Return Originator (ERO)** originates the electronic submission of income tax returns. EROs may originate the electronic submission of income tax returns they either prepared or collected from taxpayers. To be an ERO, you must:

- Be an accepted participant in the IRS's e-file Program.
- Receive an Electronic Filer Identification Number (EFIN) from the IRS.
- Enroll in our e-file Program.
- Pass our suitability check.

Intermediate Service Providers receive tax return information from an ERO or a taxpayer, process the tax return information, and either forward the information to a Transmitter or send the information back to the ERO (or taxpayer).

Software Developers develop software for the purpose of formatting electronic tax return information according to FTB Pub. 1346, *e-file Specifications and Record Layouts for California Individual Income Tax Returns*, or FTB Pub. 1346B, *Business e-file Guide for Software Developers and Transmitters*; and/or transmitting electronic return information directly to FTB.

Transmitters transmit electronic tax return information directly to FTB.

The Authorized FTB e-file Provider categories are not mutually exclusive. For example, an ERO can, at the same time, be a Transmitter, Software Developer, or Intermediate

Service Provider, depending on the functions performed. All participants are responsible for adhering to the requirements of each category they may participate in.

2.3 Differences Between the IRS and FTB e-file Programs

We follow the e-file program requirements found in IRS Pub. 1345 and in IRS Revenue Procedure 2000-31, to the extent that they apply to our e-file Program. The following exceptions apply:

- Transmit all state tax returns and attachments directly to FTB in Sacramento, California.
- Do not send paper documents to FTB.
- EROs and taxpayers must retain forms FTB 8453, FTB 8453-C, FTB 8453-LLC, FTB 8453-P, or FTB 8879. Do not mail these to FTB.
- Individual taxpayers must retain forms W-2, W-2G, 1099-R, 592-B, 593-B, and 594 along with a complete copy of the return.
- We do not have an “offset” indicator.
- We do not accept substitute Forms W-2.
- We do not have an electronic signature option for business e-file returns.
- e-filing is mandatory for certain preparers of individual income tax returns.

2.4 Mandatory e-file (Individual e-file)

e-file of individual returns is mandatory for returns prepared by certain income tax preparers. California law requires tax preparers who prepare more than 100 individual state income tax returns annually and prepare one or more using tax preparation software to e-file all current-year individual income tax returns.

Note: The mandatory e-file law does not apply to the filing of business returns.

For the purposes of this law, an “Income Tax Preparer” is defined as *a person who prepares, in exchange for compensation, or who employs another person to prepare, in exchange for compensation, any return for the tax imposed.* This means, even if a person in your employ or one of your offices files less than 100 individual returns, if the total of all individual income tax returns prepared by multiple preparers or from multiple offices equals more than 100 and tax preparation software is used for one or more returns, all acceptable returns prepared are required to be e-filed.

If you reside or have an office outside California and you meet the requirements of the mandate, all California individual returns you prepare are required to be e-filed.

Note: There is no provision in the law that allows for a preparer waiver from the mandate.

What types of returns must be e-filed?

All current year individual income tax returns are required to be e-filed. Prior year, fiduciary, amended, and business returns are not required to be e-filed under the mandate.

Is there a penalty for not e-filing?

Beginning January 2005, a \$50 per return penalty may be assessed for each return filed on paper that should have been e-filed.

What if my client (the taxpayer) does not want their return e-filed?

Section 19170 of the Revenue and Taxation Code includes reasonable cause language that states reasonable cause includes, but is not limited to, a taxpayer's election not to e-file. If your client elects not to e-file, you should record that election on the *e-file Opt-Out Record for Individuals* (form FTB 8454). This form allows you to record your client's election not to e-file and should be retained with your records. **Do not mail this form to FTB.** If this form is not included in your software, you can download it from our Website at www.ftb.ca.gov and search for **8454**, or it is available in FTB Pub. 1345A, *2006 Individual e-file Handbook Supplement*.

For additional information regarding Mandatory e-file, visit our Website at www.ftb.ca.gov and search for **Mandatory e-file**, or contact e-Programs Customer Service at (916) 845-0353 or via email at e-file@ftb.ca.gov.